

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 SEOUL 6556

USDOC FOR MEPD AND T.Z. CORLESS, DIB

E.O. 11652: GDS

TAGS: ETEL BEXP KS

SUBJECT: MAJOR PROJECTS - TELEPHONE CENTRALS FOR KOREA

REF: SEOUL 6211, 9/18/74, AND PREVIOUS

SUMMARY: U.S. FIRMS, NORTH, ITT, AND GTE, HAVE TRIED UNSUCCESSFULLY FOR YEARS TO MARKET TELEPHONE SWITCHING CENTRALS IN KOREA. ROKG TRYING DEVELOP KOREAN ELECTRONIC SWITCHING DESIGN AND PRODUCTION CAPABILITY. R&D PROJECT IMMINENT. GTE HAS MADE LAST-DITCH EFFORT REVERSE THIS COURSE OF ACTION WHICH PLAYS INTO HANDS OF SIEMENS. ELECTRONIC SWITCHING SEMINAR HELD IN EMBASSY TRADE PROMOTION FACILITY AND OTHER ASSISTANCE RENDERED TO GTE. GTE NOW PREPARING PROPOSAL INVEST DOLS TWENTY MILLION IN SAMSUNG-GTE JOINT VENTURE FOR LOCAL PRODUCTION. OTHER FORMS COOPERATION OFFERED. GTE STATES THAT UNDER THEIR PROPOSAL U.S. SOURCING WOULD STILL BE UP TO DOLS FOUR HUNDRED MILLION. AT PRESENT, GTE HAS NO BETTER THAN ONE IN FOUR PROBABILITY OF PENETRATING MARKET. CLEARLY APPARENT ROKG WILL BE RESPONSIVE ONLY TO VENDORS FOLLOWING GTE APPROACH, E.G., INVESTMENT, TECHNOLOGICAL COOPERATION, ETC., AND EMBASSY BEST ABLE SUPPORT U.S. FIRMS OFFERING U.S. EQUIPMENT ALONG THESE LINES.

1. BACKGROUND: FOR A NUMBER OF YEARS ORIENTAL PRECISION CORPORATION (OPC) AND GOLD STAR TELECOMMUNICATIONS (GST), THE LATTER A LICENSEE OF SIEMENS, HAVE SUPPLIED THE KOREAN CONFIDENTIAL

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MARKET FOR EMD TELEPHONE SWITCHING CENTRALS, CABLE, AND INSTRUMENTS. OFF AND ON FOR SEVERAL YEARS, NORTH ELECTRIC AND GENERAL TELEPHONE AND ELECTRIC (GTE) HAVE SOUGHT TO SELL MORE ADVANCED EQUIPMENT TO THE CREAKING KOREAN TELEPHONE

SYSTEM. MORE RECENTLY, LAST YEAR AND EARLY THIS YEAR, ITT WAS ACTIVE IN ATTEMPTING TO SELL ITS PENTACONTA SYSTEM, BUT APPARENTLY DECIDED TO REDUCE THE SCALE OF ITS EFFORT HERE IN LIGHT OF A ROKG DECISION TO DEVELOP A "KOREAN SOLUTION." AT THE NEW YEAR'S BRIEFINGS FOR PRESIDENT PARK, MINISTER OF COMMUNICATIONS (MOC) CHUNG STATED THAT MOC AND THE KOREAN INSTITUTE OF SCIENCE AND TECHNOLOGY (KIST) IN COOPERATION WITH GST AND OPC COULD DEVELOP AN INDIGENOUS ELECTRONIC SWITCHING DESIGN AND PRODUCTION CAPABILITY, THE "KOREAN SOLUTION." PRESIDENT PARK TOLD THE MINISTER TO GO AHEAD. A RESEARCH PROJECT HAS BEEN DRAFTED WHICH INVOLVES A DOLS TEN MILLION EFFORT OVER THE NEXT TWO OR THREE YEARS TO BE FINANCED BY CONTRIBUTIONS FROM GST, OPC, AND THE MOC BUDGET. IN THE EYES OF ITT, GTE AND OTHERS, THIS PLAYS INTO THE HANDS OF SIEMENS AND ITS LICENSEE, GST, BY INTRODUCING ANOTHER DELAY UNTIL SIEMENS CAN DEVELOP A VIABLE ELECTRONIC SWITCHING SYSTEM. THIS RESEARCH PROJECT IS NEAR FINAL DEFINITION, HAS BEEN CONSIDERED ONCE BY THE ECONOMIC COUNCIL BUT NOT YET APPROVED. UPON APPROVAL IT WOULD BE TRANSMITTED TO THE BLUE HOUSE AND EVENTUALLY TO THE NATIONAL ASSEMBLY FOR THE NECESSARY IMPLEMENTING LEGISLATION. THE RESEARCH PROJECT PRESENTLY IS HUNG UP ON A CONFLICT BETWEEN THE MINISTRY OF SCIENCE AND TECHNOLOGY (MOST) AND THE MOC AS TO THE IMPLEMENTING AGENCY, KIST, WHOSE ORIGINAL IDEA THE RESEARCH PROJECT WAS, WISHES TO SET UP AN ELECTRONIC SWITCHING INSTITUTE AT ITS NEW DAEDOK SCIENCE CITY, WHILE THE MOC WANTS TO MAINTAIN CONTROL OVER THE PROJECT. ANOTHER DIFFICULTY IS THE DEFINITION OF THE MOC BUDGET FOR THE NEXT FIVE-YEAR-PLAN WHICH IS NOW IN PROCESS AT THE ECONOMIC PLANNING BOARD (EPB).

2. GTE ACTION PROGRAM: THE FIRST EMBASSY CONTACT WITH GTE IN THE PAST YEAR OR TWO WAS USDOC 10249 AND A VISIT IN EARLY AUGUST BY WILLIAM L. MAYO, VICE PRESIDENT, GTE INTERNATIONAL. DURING CONVERSATIONS WITH THE PRESIDENT OF SAMSUNG ELECTRONICS PREPARATORY TO MAYO'S VISIT, IT WAS REVEALED THAT SAMSUNG ELECTRONICS AND GTE HAD JUST SIGNED A LETTER OF INTENT TO COOPERATE IN THE SALE OF ELECTRONIC SWITCHING EQUIPMENT TO CONFIDENTIAL

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THE ROKG. AT HIS REQUEST, THE EMBASSY ARRANGED FOR MAYO TO CALL ON THE FIRST SENIOR SECRETARY FOR ECONOMIC AFFAIRS IN THE OFFICE OF THE PRESIDENT, BUT WAS UNSUCCESSFUL IN ARRANGING A COURTESY CALL ON THE DEPUTY PRIME MINISTER (DPM) WHO BUCKED THE MATTER BACK TO THE MINISTER OF COMMUNICATIONS. MAYO DECIDED, IN VIEW OF AN EARLIER AND DECIDEDLY COOL RECEPTION FROM THE MINISTER OF COMMUNICATIONS TO KEEP A LOW PROFILE IN KOREA FOR THE TIME BEING AND DID NOT ATTEMPT TO CALL ON HIM OR THE MINISTER OF SCIENCE AND TECHNOLOGY. AT THE SUGGESTION OF THE CHARGE, MAYO DECIDED TO CHANGE THE SITE OF AN ALREADY-PLANNED SEMINAR ON ELECTRONIC SWITCHING TO THE EMBASSY'S TRADE PROMOTION FACILITY ON AUGUST 19. AFTER MAYO'S DEPARTURE, SAMSUNG ELECTRONICS GOT COLD FEET, HOWEVER, AND

ASKED TO HAVE ITS NAME DELETED AS CO-SPONSOR OF THE SEMINAR BECAUSE SAMSUNG GROUP PRESIDENT LEE EUN TAIK SO INSTRUCTED. THE LATTER EXPLAINED THAT A POLICY DECISION HAD BEEN MADE ON THE "HIGHEST LEVEL" TO COLLABORATE WITH SIEMENS ON THIS PROJECT IN ORDER TO FOSTER GOOD BILATERAL RELATIONS WITH THE FRG. THERE ARE TRACES THAT THE FRG AND/OR SIEMENS WOULD CONTRIBUTE TO COST OF THE RESEARCH PROJECT. THE SAMSUNG GROUP DID NOT FEEL THAT IT COULD BE ASSOCIATED WITH A "LOSER." MAYO WAS ADVISED ACCORDINGLY, BUT DECIDED TO RETURN TO KOREA AND TO GO AHEAD ANYWAY. THE TRADE CENTER ORGANIZED THE SEMINAR WITH HELP IN THE BACKGROUND FROM SAMSUNG ELECTRONICS.

3. RESULTS OF GTE ACTIVITY: SOME 150 SEMINAR INVITATIONS WERE ISSUED AND 51 BUREAU DIRECTORS AND LOWER-LEVEL TECHNICIANS FROM A GOOD SELECTION OF GOVERNMENT INSTITUTIONS ATTENDED. AN EVENING RECEPTION, HOWEVER, WAS A COMPLETE DUD, AND THERE IS AT LEAST A SUSPICION THAT HIGHER-LEVEL GOVERNMENT OFFICIALS ON THE RECEPTION GUEST LIST WERE INSTRUCTED NOT TO ATTEND. USIS ORGANIZED A PRESS CONFERENCE FOR MAYO THE NEXT DAY WHERE HE DESCRIBED GTE'S PLANS FOR KOREA (SEE PARA 4 NEXT BELOW). THIS PRESS CONFERENCE RECEIVED EXCELLENT PRESS PLAY REPORTEDLY DUE TO LIBERAL CASH PAYMENTS BY SAMSUNG ELECTRONICS. IN ADDITION, THE COMMERCIAL ATTACHE ACCOMPANIED MAYO DURING CALLS ON CHAIRMAN OF THE KOREA-U.S. ECONOMIC COUNCIL (KUSEC) PARK CHOONG HOON AND ITS PRESIDENT, KIM TAI DONG. PARK IS FORMER DEPUTY PRIME MINISTER AND KIM FORMER MINISTER OF COMMUNICATIONS. MAYO ALSO CALLUD ON THE DIRECTOR OF THE ECONOMIC PLANNING BUREA
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OF EPB, WHO PRESENTED THE FIRST POSITIVE REACTION TO GTE WITHIN THE ROKG. PLANNING DIRECTOR KIM JAE IK HAD EARLIER REPORTED TO AN EMBOFF THAT HE WAS TRYING TO HELP PUT TOGETHER

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USDOC FOR MEPD AND T.Z. CORLESS, DIB

THE MOC BUDGET FOR THE NEXT SEVERAL YEARS. HE STATED THAT THE MOC OFFICIAL PROSPECTIVELY IN CHARGE OF THE RESEARCH PROJECT HAD ADMITTED THAT HE WAS FLOUNDERING. KIM JAE IK THOUGHT THE BUDGET WAS IN BAD SHAPE AND QUESTIONED THE WHOLE IDEA OF REINVENTING THE WHEEL. AS A PLANNER, HE STATED HE ALSO IS CONCERNED WITH PROMPT DEVELOPMENT OF KOREA'S BASIC INFRASTRUCTURE, PARTICULARLY THE OBSOLETE AND OVERLOADED SEOUL TELEPHONE SYSTEM, AS WELL AS THE PLANNED ROKG PROGRAM TO LINK WARD POLICE OFFICES AND OTHER ADMINISTRATIVE UNITS WITH A CENTRAL GOVERNMENT COMPUTER FACILITY. MAYO'S PRESENTATION TO KIM JAE IK EMPHASIZED THE TECHNOLOGY TRANSFER VALUE OF THE PROSPECTIVE GTE INVESTMENT IN KOREA, AND ELABORATED UPON GTE'S PLANS FOR TRAINING KOREAN TECHNICIANS AND EMPLOYING THEM IN OTHER GTE PROJECTS IN IRAN AND ELSEWHERE, WHICH WAS JUST WHAT KIM JAE IK WANTED TO HEAR. THE AFTERNOON OF MAYO'S DEPARTURE, KIM JAE IK REPORTED TO THE EMBASSY THAT HE HAD DISCUSSED THE OVERALL COMMUNICATIONS SITUATION WITH DEPUTY PRIME MINISTER NAM, AND HAD REPORTED TO HIM ON HIS SEVERAL MEETINGS WITH MAYO AND OFFICIALS FROM KIST. KIM JAE IK REPORTED THAT NAM WISHED TO TALK TO MAYO AND LEARN MORE OF HIS PROPOSALS. FURTHER, DPM NAM RESTATED THAT HIS POLICY IS TO STIMULATE FAIR COMPETITION IN ALL SECTORS OF THE ECONOMY AND TO FOSTER THE ORDERLY INTRODUCTION OF FOREIGN TECHNOLOGY TO KOREA, ACCORDING TO KIM. REPORTEDLY, THE MINISTER OF COMMUNICATIONS ALSO REQUESTED THE SEE MAYO DISCUSS GTE'S PLANS FOR KOREA.

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4. GTE PLANS FOR KOREA: IN RESUME, GTE PROPOSES TO ENTER INTO A FIFTY/FIFTY JOINT VENTURE WITH SAMSUNG ELECTRONICS AND TO INVEST APPROXIMATELY DOLS TWENTY MILLION IN THE VENTURE. ALL NECESSARY DESIGNS AND TECHNICAL ASSISTANCE WOULD BE SUPPLIED FREE OF ROYALTIES. A TRAINING INSTITUTE WOULD BE SET UP. GTE WOULD CONSIDER PRODUCTION ALSO OF CERTAIN OF ITS MILITARY COMMUNICATIONS PRODUCTS AND COLLABORATE WITH KIST IN CERTAIN OTHER UNSPECIFIED RESEARCH AND DEVELOPMENT PROJECTS. MAYO INDICATED PRIVATELY THAT THE PROBABLE IMPORT/LOCAL PRODUCTION MIX WOULD BE ON THE ORDER OF FORTY/SIXTY; THUS IF THE TOTAL EQUIPMENT REQUIREMENT FOR ELECTRONIC SWITCHING CENTRALS IN MAJOR EXCHANGES ALONE WERE TO BE ON THE ORDER OF DOLS ONE BILLION, THEN THE POTENTIAL EXPORTS FROM THE U.S., MAYO REITERATED, WOULD BE APPROXIMATELY DOLS FOUR HUNDRED MILLION. MAYO ALSO TOLD INTERESTED OBSERVERS THAT OF COURSE GOLD STAR AND ORIENTAL PRECISION WOULD CONTINUE TO SUPPLY EMD EQUIPMENT FOR OUTLYING EXCHANGES. NOTE: PROTECT ALL ABOVE FROM COMPETITORS. FINALLY, IN HIS PRESS CONFERENCE, MAYO EMPHASIZED THAT THE INVESTMENT WOULD BE FORTHCOMING ONLY IF THE JOINT VENTURE WOULD HAVE ACCESS TO THE KOREAN MARKET AND THE SOLE BUYER, THE MINISTRY OF COMMUNICATIONS.

5. EMBASSY EVALUATION: AT PRESENT THE EMBASSY DOES NOT FEEL THAT GTE HAS BETTER THAN A TWENTY-FIVE PERCENT CHANCE OF PENETRATING THIS MARKET. MUCH WILL DEPEND ON GTE'S WILLINGNESS TO PROCEED WITH THEIR INVESTMENT PROGRAM DESCRIBED ABOVE AND SUCCESS IN ENLISTING ALLIES WITHIN THE KOREAN GOVERNMENT. THE DEPUTY PRIME MINISTER IS THE FIRST NATURAL ALLY, BUT MAY BE SCARED OFF BY THE HIGH IMPORT COST, NOTWITHSTANDING THE ECONOMIC COST OF FURTHER DELAYS IN IMPROVEMENT IN THE TELEPHONE INFRASTRUCTURE WHICH WILL BE CAUSED BY THE "KOREAN SOLUTION." THE MINISTER OF COMMERCE AND INDUSTRY IS ANOTHER POSSIBLE ALLY, AND THE MINISTER OF SCIENCE AND TECHNOLOGY WILL HAVE TO COME OUT IN SUPPORT OF THE GTE PROPOSAL. GOLD STAR WITH ITS "GERMAN CONNECTION" AND OPC'S AGGRESSIVE PRESIDENT, FORMER GENERAL PARK YEUL SUN, WILL BE RUGGED ADVERSARIES. FINAL DECISION ON THIS PROJECT THUS WILL HAVE DECIDEDLY POLITICAL OVERTONES. FOR THE IMMEDIATE FUTURE, THE EMBASSY UNDERSTANDS THAT MAYO WILL SEND A SUMMARY INVESTMENT PROPOSAL TO THE DEPUTY PRIME MINISTER IMMEDIATELY

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AND WILL RETURN TO KOREA IN SEVERAL WEEKS TO PRESENT PERSONALLY TO HIM A DETAILED PROSPECTUS. ACCORDING TO A MESSAGE FROM AMEMBASSY SINGAPORE, MR. MOORE OF NORTH ELECTRIC IS COMING TO KOREA IN MID-SEPTEMBER. THE LOCAL REPRESENTATIVE OF ITT IS GENERALLY AWARE OF EMBASSY EFFORTS ON BEHALF OF GTE.

6. ACTION REQUEST: THE EMBASSY HAS NO PARTICULAR OBJECTION TO THE CONTENT OF THIS MESSAGE BEIRB PASSED TO ITZ AND NORTH ELECTRIC IF THE DEPARTMENT SO DESIRES, AS LONG AS WE ARE PARAPHRASED CORRECTLY. THE TRADE PROMOTION FACILITY WILL OF COURSE BE MADE AVAILABLE TO ANY U.S. COMPANY WISHING TO PROMOTE PRODUCTS ORIGINATING IN THE U.S. PER ITS EXISTING SPECIFIC GROUND RULES, AND THE EMBASSY WILL ARRANGE APPOINTMENTS AS APPROPRIATE FOR NORTH ELECTRIC AND ITT REPRESENTATIVES. AT THE MOMENT, HOWEVER, IOV APPEEJS THAT THE ROKG WILL BE RESPONSIVE ONLY TO VENDORS WHO INCLUDE INVESTMENT, TECHNOLOGY TRANSFER AND OTHER EXTRAS IN THEIR PROPOSALS, AND EMBASSY BEST ABLE SUPPORT U.S. FIRMS FOLLOWING PACKAGE DEAL APPROACH SUCH AS GTE'S, AND OFFERING U.S. EQUIPMENT, OF COURSE.

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